

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Briggs Analyst: Jane Tolman Bill Number: AB 813

Related Bills: See Legislative History Telephone: 845-6111 Amended Date: 01-07-2002

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Hot Water Recirculating System Credit/FTB Report To Legislature Regarding Utilization of Credit

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended May 10, 2001.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended May 10, 2001.
- ☒ FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 10, 2001 STILL APPLIES.
- OTHER - See comments below.

SUMMARY

This bill would provide a credit equal to 50% of the costs of a hot water recirculating system.

SUMMARY OF AMENDMENT

The January 7, 2002, amendments:

- Added the requirement that the system be installed as a part of new construction in California;
- Limited the total amount of credits allowed to each taxpayer to \$600 for each structure;
- Clarified that for a structure that has never been occupied for its intended purpose, the credit would be allowed on the date the system is installed; and
- Added a definition for "structure."

These amendments resolve one implementation concern discussed in the department's prior analysis of the bill as introduced February 22, 2001. The amendments also resolve the policy concern discussed in the prior analysis of the bill as amended May 10, 2001. However, one new implementation concern has been raised. The remainder of the department's prior analysis of the bill still applies. The new and remaining implementation considerations have been included below.

POSITION

Pending.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

5/16/02

Summary of Suggested Amendments

Department staff is available to resolve the issues discussed in the "Implementation Considerations" below.

IMPLEMENTATION CONSIDERATIONS

It is unclear if the hot water pipe typically installed in structures would be part of the hot water recirculating system credit. The pipes required for the recirculating system are the same pipes required for all hot water use and would not qualify for the credit unless specifically provided for in the bill.

In order to avoid confusion, a threshold description or amount is needed for the terms "renovated" and "remodeled" with respect to the definition of "new construction."

There is one new concern, this bill was introduced in the 2001 (first year) legislative session and would allow taxpayers a credit for taxable years beginning on or after January 1, 2001 (first year). If this bill were enacted in the 2002 (second year) legislative session, the credit allowed by this bill would be considered retroactive to the specified operative date of January 1, 2001 (first year), and credits claimed by taxpayers could be construed as a gift of public funds. The author may want to consider amending the bill to change the operative date to January 1, 2002, and change the sunset date to January 1, 2007.

FISCAL IMPACT

Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Hot Water Recirculating System Credit			
Years Beginning On or After January 1, 2002*			
Enactment Assumed After June 30, 2002			
Fiscal Years			
(In Millions)			
	2002-3	2003-4	2004-5
Hot Water Recirculation Systems Credit	-\$5	-\$12	-\$17

This analysis is based on an operative date of January 1, 2002, despite the bill's reference to January 1, 2001. Based on advice from our Legal Division, the credit would be limited to one per building based on the current definition of "structure" provided in the January 7, 2002 amendment.

The significant increase in revenue losses after the initial year is because more taxpayers will be aware of the tax credit. This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure being adopted.

Revenue Discussion

The number of residential units estimated to install hot water recirculation systems in 2002 is 10,500 at an average composite cost of approximately \$550 for a total outlay of \$5.8 million. The proposed credit is 50 percent of the cost or \$2.9 million of which \$2.6 million is projected to be offset by tax liabilities. The impact for all commercial installations is projected to be 50 percent of the total residential impact or \$1.3 million resulting in a total 2002 tax year revenue loss for both residential and industrial units on the order of \$4 million.

It is projected for the 2003 tax year that there will be 25,800 qualifying residential units with installed systems at an average composite cost of \$550 for all unit types. This total outlay of \$14.2 million results in \$7.1 million in potential tax credits under a 50% credit but an actual revenue loss of \$6 million due to insufficient tax liabilities on the part of some taxpayers. The impact for all commercial installations has been approximated at one-half the total residential loss (i.e. \$3 million) resulting in an aggregate 2003 tax year revenue loss on the order of \$9 million.

Projected tax year impacts were then converted to fiscal year estimates to allow for the timing of changes in tax payments throughout the year by taxpayers taking advantage of the proposed credit. These changes can represent reduced quarterly estimated tax payments and smaller final payments with returns filed.

LEGISLATIVE STAFF CONTACT

Jane Tolman
Franchise Tax Board
845-6111

Brian Putler
Franchise Tax Board
845-6333